

Message Text

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PAGE 01 ROME 07871 031557Z

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SUBJ: HIGHLIGHTS OF GOVERNOR CARLI'S SPEECH AT BANK OF ITALY

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PAGE 02 ROME 07871 031557Z

ANNUAL MEETING

REFS: A. ROME 7859 DATED 3 JUNE 1975
B. ROME A-223 DATED 15 MAY 1975

PASS TREASURY AND FRB

1. /SUMMARY/. ALTHOUGH OVERSHADOWED BY HIS RESIGNATION TENDER (SEE REFTEL A), BANK OF ITALY (BOI) GOVERNOR CARLI'S SPEECH AT BOI ANNUAL MEETING HELD ON MAY 31, 1975 CONTAINED REASONED SYNOPSIS OF ITALIAN ECONOMIC PERFORMANCE IN 1974 IN THE CONTEXT OF THE UNSETTLED INTERNATIONAL ECONOMIC SITUATION. HIGHLIGHTS OF LOW KEY NON-POLEMICAL DISCOURSE WERE (1) JABS AT INSUFFICIENT FINANCIAL SUPPORT FOR ITALY FROM ITS EEC PARTNERS AND FROM THE US, (2) EMPHASIS ON THE NEED FOR ALL INDUSTRIALIZED COUNTRIES TO EXERCISE CAUTION NOT TO REKINDLE INFLATION WHEN LONG-AWAITED ECONOMIC RESURGENCE BEGINS, AND (3) REITERATION OF NECESSITY FOR ITALY TO REVITALIZE PLURALISTIC ECONOMIC DECISION-MAKING PROCESSES, CURB THE RAPID EXPANSION OF PUBLIC SPENDING AND ITS CONCOMITANT, GROWING PUBLIC SECTOR INDEBTEDNESS, AND TO CONTINUE TO IMPROVE FUNCTIONING OF FINANCIAL MARKETS. /END SUMMARY/.

2. /LACK OF EXTERNAL FINANCIAL SUPPORT/. IN FIRST SECTION OF SPEECH CARLI CRITICIZED IN CLEAR TERMS THE OPPOSITION OF THE US TO THE ENLARGEMENT OF THE IMF OIL FACILITY, ASSUMING THAT THIS OPPOSITION RESULTED FROM A DESIRE ON THE PART OF THE US TO RESTORE INTERNATIONAL BALANCE OF PAYMENTS EQUILIBRIUM BY FORCING A REDUCTION IN THE PRICE OF PETROLEUM. CARLI ALSO CRITICIZED THE OECD MEMBERSHIP FOR TRANSFORMING THE "MUTUAL ASSISTANCE ACCORD" INTO ONE OF "MUTUAL SUSPECT." SINGLING OUT ITS EEC PARTNERS, CARLI LAMENTED THEIR POOR PERFORMANCE IN ASSISTING THEIR "DISADVANTAGED" MEMBERS THROUGH THEIR JOINT BORROWING SCHEME, CITING THE "RESTRICTIVE" BORROWING PROCEDURES AND NEED TO REQUEST A BORROWING BEFORE ITS TERMS WERE KNOWN. THE PRINCIPLE OF MUTUAL SOLIDARITY AMONG THE INDUSTRIALIZED COUNTRIES, CARLI EMPHASIZED, WAS PUT IN JEOPARDY BY ALL OF THESE ACTIONS.

3. /NEED TO INSURE STEADY, NON-INFLATIONARY ECONOMIC REVIVAL/. CARLI REITERATED THE NEED FOR ALL INDUSTRIALIZED COUNTRIES
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PAGE 03 ROME 07871 031557Z

TO EXERCISE CAUTION NOT TO REKINDLE INFLATIONARY PRESSURES WHEN THE LONG-AWAITED ECONOMIC RESURGENCE BEGINS. THE BEGINNING OF THE RESURGENCE, WHICH CARLI SAID IS BEING PUSHED FURTHER AND FURTHER INTO THE FUTURE, IS PARTICULARLY DEPENDENT ON THE STRENGTH OF THE GERMAN ECONOMY. THE UNIQUENESS OF THE CURRENT ECONOMIC RECESSION, WHICH AFFECTS ALL THE INDUSTRIAL COUNTRIES AT ONCE, POINTS OUT THE NEED FOR /INTERNALLY-GENERATED GROWTH/. NEVERTHELESS, CREDIT RESTRAINT

IN THE PRINCIPAL INDUSTRIAL COUNTRIES WILL CONTINUE TO BE NECESSARY FOR BOTH ANTI-INFLATION AND BALANCE OF PAYMENTS RATIONALE. IN REGARD TO ITALY, CARLI SPECIFICALLY HIGHLIGHTED THE RECENT IMPROVEMENT IN THE BALANCE OF PAYMENTS PERFORMANCE IN THE FIRST FOUR MONTHS OF 1975. HE LISTED THE REPAYMENT OF DLR 400 MILLION OF COMPENSATORY BORROWINGS, THE DLR 500 MILLION REPAYMENT OF THE GERMAN GOLD COLLATERAL LOAN (CARLI ANNOUNCED THAT THE GOLD COLLATERAL WAS VALUED AT DLR 149 AN OUNCE), AND THE PAYMENT OF DLR 400 MILLION IN INTEREST SO FAR IN 1975 AS INDICATIONS OF THIS IMPROVEMENT.

4. /IMPROVEMENT OF ITALIAN DOMESTIC ECONOMIC PERFORMANCE/.
TURNING TO THE ITALIAN DOMESTIC ECONOMY IN THE FINAL SECTION OF HIS PRESENTATION, CARLI RE-EMPHASIZED THE IMPORTANCE OF A PLURALISTIC ECONOMIC DECISION-MAKING STRUCTURE AS AN INDISPENSABLE ELEMENT TO INSURE BALANCED ECONOMIC AND POLITICAL DEVELOPMENT IN ITALY. POINTED CRITICISMS OF GOVERNMENT INEFFECTIVENESS AND OF UNREASONABLE DEMANDS ON THE PART OF LABOR, HALLMARKS OF EARLIER CARLI ANNUAL SPEECHES, WERE EITHER ENTIRELY ABSENT OR MUTED THIS YEAR. INSTEAD, CARLI WAS CRITICAL OF THE RAPID EXPANSION OF PUBLIC SPENDING IN GENERAL AND OF ITS CONCOMITANT, GROWING PUBLIC SECTOR INDEBTEDNESS. A SUBSTANTIAL PART OF CARLI'S PRESENTATION OF ITALY'S DOMESTIC ECONOMIC PERFORMANCE IN 1974 RETRACED THE EFFORTS TO DEVELOP WIDER MARKETS FOR TREASURY BILLS (SEE REFTEL B FOR DETAILS).VOLPE

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